

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

**Henry McMorran Memorial
Auditorium Authority
City of Port Huron, Michigan**

**Financial Report
June 30, 2006**

Henry McMorran Memorial Auditorium Authority

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Independent Auditor's Report

To the Honorable Commissioners
Henry McMorran Memorial Auditorium Authority

We have audited the accompanying basic financial statements of Henry McMorran Memorial Auditorium Authority, a component unit of the City of Port Huron, Michigan, as of June 30, 2006 and 2005 and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of Henry McMorran Memorial Auditorium Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Henry McMorran Memorial Auditorium Authority as of June 30, 2006 and 2005 and the changes in financial position, including cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Henry McMorran Memorial Auditorium Authority has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

September 8, 2006



A worldwide association of independent accounting firms

Henry McMorran Memorial Auditorium Authority

Statement of Net Assets

	June 30	
	2006	2005
Assets		
Current assets:		
Cash (Note 2)	\$ 7,486	\$ 186,469
Accounts receivable (Note 1)	18,804	35,121
Interest receivable	3,093	3,649
Inventories	11,814	7,580
Prepaid and other	7,611	8,168
Total current assets	48,808	240,987
Restricted assets (Note 3)	557,429	1,056,342
Property and equipment - Net (Note 5)	2,665,622	2,457,089
Total assets	3,271,859	3,754,418
Liabilities		
Current liabilities:		
Accounts payable:		
Trade	36,126	58,479
Related party	28,914	28,287
Accrued payroll and related taxes	106,237	90,539
Other liabilities	96,037	134,932
Total current liabilities	267,314	312,237
Deferred revenue (Note 6)	557,429	1,056,342
Total liabilities	824,743	1,368,579
Net Assets		
Invested in capital assets - Net of related debt	2,665,622	2,457,089
Unrestricted deficit	(218,506)	(71,250)
Total net assets	<u>\$ 2,447,116</u>	<u>\$ 2,385,839</u>

Henry McMorran Memorial Auditorium Authority

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2006	2005
Operating Revenue		
Rental of facilities	\$ 777,575	\$ 906,973
Special attractions and promotions	63,483	77,654
Canteen sales	351,247	308,946
Alcohol sales	163,989	131,802
Parking lot	244,656	270,520
Surcharges	65,655	44,506
Catering and other	56,121	78,558
Total operating revenue	1,722,726	1,818,959
Operating Expenses		
Salaries and wages - Net of reimbursement	777,532	730,459
Employee benefits and payroll taxes	282,341	264,880
Cost of sales - Canteen and alcohol	179,166	170,413
Utilities	349,833	318,565
Repairs, maintenance, and other	558,198	645,653
Provision for depreciation	422,058	392,149
Total operating expenses	2,569,128	2,522,119
Loss from Operations	(846,402)	(703,160)
Nonoperating Revenue		
Appropriation from the City of Port Huron	335,000	335,000
Interest income	3,796	3,942
Total nonoperating revenue	338,796	338,942
Loss - Before capital contributions	(507,606)	(364,218)
Capital Contributions - From assets constructed with grants or donated from outside sources	568,883	370,997
Net Income	61,277	6,779
Net Assets - Beginning of year	2,385,839	2,379,060
Net Assets - End of year	<u>\$ 2,447,116</u>	<u>\$ 2,385,839</u>

Henry McMorran Memorial Auditorium Authority

Statement of Cash Flows

	Year Ended June 30	
	2006	2005
Cash Flows from Operating Activities		
Receipts from customers	\$ 1,739,043	\$ 1,816,128
Payments to suppliers	(1,433,836)	(1,252,825)
Payments to employees	(761,834)	(748,280)
Net cash used in operating activities	(456,627)	(184,977)
Cash Flows from Noncapital Financing Activities - Appropriation from the City of Port Huron	335,000	335,000
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	(610,131)	(424,066)
Appropriation from the Henry McMorran Memorial Auditorium Trust for capital purchases	-	17,600
Donations recieved for arena improvements	22,000	-
Funds received from Seeing Stars program and other donations	462	350
Net cash used in capital and related financing activities	(587,669)	(406,116)
Cash Flows from Investing Activities - Interest received on investments	31,400	22,139
Net Decrease in Cash	(677,896)	(233,954)
Cash - Beginning of year	1,241,811	1,475,765
Cash - End of year	<u>\$ 563,915</u>	<u>\$ 1,241,811</u>
Balance Sheet Classification of Cash		
Current assets - Cash	\$ 7,486	\$ 186,469
Restricted assets - Cash	556,429	1,055,342
Total balance sheet classification of cash	<u>\$ 563,915</u>	<u>\$ 1,241,811</u>
Reconciliation of Loss from Operations to Net Cash from Operating Activities		
Loss from operations	\$ (846,402)	\$ (703,160)
Adjustments to reconcile loss from operations to net cash from operating activities:		
Depreciation	422,058	392,149
Changes in assets and liabilities:		
(Increase) decrease in receivables	16,317	(2,831)
(Increase) decrease in inventories	(4,234)	3,986
Decrease in prepaid and other	557	7,690
Increase (decrease) in accounts payable	(21,726)	37,423
Increase (decrease) in accrued payroll	15,698	(17,821)
Increase (decrease) in other current liabilities	(38,895)	97,587
Net cash used in operating activities	<u>\$ (456,627)</u>	<u>\$ (184,977)</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2006, approximately \$20,000 of capital asset additions were donated to the Authority. During the year ended June 30, 2005, there were no noncash investing, capital, or financing activities.

Henry McMorran Memorial Auditorium Authority

Notes to Financial Statements June 30, 2006 and 2005

Note I - Summary of Significant Accounting Policies

Henry McMorran Memorial Auditorium Authority (the "Authority"), a municipal corporation, was organized on August 13, 1956 for the purpose of acquiring, furnishing, equipping, owning, improving, enlarging, operating, and/or maintaining a civic auditorium and sports arena. The Authority, which was incorporated under the provisions of Act 31, Public Acts of Michigan, 1948, as amended, is a nonprofit corporation and, accordingly, is exempt from income taxes.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

Reporting Entity - The Authority has been identified as a component unit of the City of Port Huron (the "City"). GASB Statement No. 14 defines a component unit to include those governmental organizations that are fiscally dependent on the primary government.

The Authority has exclusive jurisdiction over the control, operation, and maintenance of the facilities. The City of Port Huron has contractually assumed responsibility to reimburse the Authority for any excess of operating expenses over revenue received from operations and will be responsible for necessary capital improvements, furnishings, and equipment. There is no time limitation on the financial responsibilities of the City.

The agreement with the City also provides that the Authority shall pay any earnings from the operations of the facilities to the City.

Basis of Accounting - The accrual basis of accounting is used by Henry McMorran Memorial Auditorium Authority. The Authority follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989 to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Authority has elected not to apply private sector standards issued after November 30, 1989.

Accounts Receivable - Accounts receivable are reported net of an allowance for doubtful accounts totaling \$2,400 for the years ended June 30, 2006 and 2005.

Inventories - Inventories are stated at the lower of cost or market on a specific identification basis.

Henry McMorran Memorial Auditorium Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Cash Equivalents - The Authority considers all highly liquid investments with a maturity of three months or less to be cash and cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

Property and Equipment - Land upon which the facilities are located was donated to the Authority by the City of Port Huron. The facilities and original equipment were donated by a philanthropic organization. These properties are stated in the financial statements at the estimated fair value at the date of donation. Expenditures for improvements and equipment from funds derived from operations or City of Port Huron appropriations have been recorded at historical cost.

Depreciation of building, improvements, and equipment is provided over the estimated useful lives of the respective assets by the straight-line method. Contributed capital relating to donated fixed assets is being amortized to fund equity as the related depreciation is being charged to operations.

Deferred Revenue - Deferred revenue represents primarily the unexpended proceeds from the Seeing Stars program and a State of Michigan grant, which are not considered fully earned until the proceeds have been expended for the restricted purposes.

Fund Deficit - The Authority has an accumulated deficit of unrestricted net assets. Plans to eliminate the deficit will be filed with the State of Michigan Local Audit Finance Division.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Henry McMorran Memorial Auditorium Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 2 - Deposits and Investments (Continued)

The Authority has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments as listed above. The Authority's deposits and investment policies are in accordance with statutory authority.

The Authority's cash and investments are subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. For the years ended June 30, 2006 and 2005, the Authority had \$381,666 and \$1,187,115 of bank deposits (certificates of deposit and checking and savings accounts), respectively, that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Restricted Assets

Restricted assets of the Authority have been restricted for the renovation and revitalization of the McMorran Place Auditorium and Main Arena.

Restricted assets at June 30, 2006 and 2005 consist of the following:

	2006	2005
Cash and cash equivalents	\$ 556,429	\$ 1,055,342
Other receivables	1,000	1,000
Total	<u>\$ 557,429</u>	<u>\$ 1,056,342</u>

Note 4 - Henry McMorran Memorial Auditorium Trust

The instrument governing the Henry McMorran Memorial Auditorium Trust (the "Trust"), held by the City of Port Huron, provides that trust income be used for the preservation, repair, or replacement of the auditorium. There was no trust income provided during the year ended June 30, 2006. There was \$17,600 of trust income provided for the year ended June 30, 2005.

Henry McMorran Memorial Auditorium Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 5 - Capital Assets

A summary of the Authority's capital assets activity for the years ended June 30, 2006 and 2005 is as follows:

	2004	Additions	Deletions	2005	Depreciable Life - Years
Land	\$ 25,000	\$ -	\$ -	\$ 25,000	N/A
Building and improvements	6,515,705	382,189	-	6,897,894	10-40
Equipment	2,419,776	41,877	-	2,461,653	10
Total capital assets	8,960,481	424,066	-	9,384,547	
Less accumulated depreciation	(6,535,309)	(392,149)	-	(6,927,458)	
Net capital assets	<u>\$ 2,425,172</u>	<u>\$ 31,917</u>	<u>\$ -</u>	<u>\$ 2,457,089</u>	

	2005	Additions	Deletions	2006	Depreciable Life - Years
Land	\$ 25,000	\$ -	\$ -	\$ 25,000	N/A
Building and improvements	6,897,894	582,827	-	7,480,721	10-40
Equipment	2,461,653	47,764	-	2,509,417	10
Total capital assets	9,384,547	630,591	-	10,015,138	
Less accumulated depreciation	(6,927,458)	(422,058)	-	(7,349,516)	
Net capital assets	<u>\$ 2,457,089</u>	<u>\$ 208,533</u>	<u>\$ -</u>	<u>\$ 2,665,622</u>	

Henry McMorran Memorial Auditorium Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 6 - Changes in Deferred Revenue

The following is the activity in the deferred revenue accounts:

	Operating	State Grant	Seeing Stars	Total
Balance - June 30, 2004	\$ -	\$ 1,367,928	\$ 19,615	\$ 1,387,543
Funds received from trust	17,600	-	-	17,600
Funds received from fund-raising campaign	-	-	350	350
Funds expended for capital improvements	(17,600)	(353,397)	-	(370,997)
Interest income - Restricted	-	21,535	311	21,846
Balance - June 30, 2005	-	1,036,066	20,276	1,056,342
Funds received for locker room improvements	22,000	-	-	22,000
Funds received from fund-raising campaign	-	-	462	462
Funds expended for capital improvements	(22,000)	(526,423)	-	(548,423)
Interest income - Restricted	-	26,343	705	27,048
Balance - June 30, 2006	<u>\$ -</u>	<u>\$ 535,986</u>	<u>\$ 21,443</u>	<u>\$ 557,429</u>

Note 7 - Interest Income

The following is the interest income earned as of June 30, 2006 and 2005:

	Operating	State Grant	Seeing Stars	Total
Interest income - Operations	\$ 3,897	\$ -	\$ 45	\$ 3,942
Interest income - Restricted	-	21,535	311	21,846
Total 2005	<u>\$ 3,897</u>	<u>\$ 21,535</u>	<u>\$ 356</u>	<u>\$ 25,788</u>
Interest income - Operations	\$ 3,796	\$ -	\$ -	\$ 3,796
Interest income - Restricted	-	26,343	705	27,048
Total 2006	<u>\$ 3,796</u>	<u>\$ 26,343</u>	<u>\$ 705</u>	<u>\$ 30,844</u>

The restricted interest income represents interest earned on contributions that have been restricted for a specific purpose; hence, such amounts have been recorded as deferred revenue.

Henry McMorran Memorial Auditorium Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 8 - Employee Retirement System

All of the Authority's full-time employees participate in the Municipal Employees' Retirement System of Michigan (MERS), a multiemployer agent pension plan established by Act 427, Public Acts of 1984 of the State of Michigan. The Authority has 14 active participants whose total payroll was \$499,580 and \$473,409 for the years ended June 30, 2006 and 2005, respectively. The Authority's pension expense for the years ended June 30, 2006 and 2005 was \$40,765 and \$41,686, respectively.

The Authority met all actuarially determined employer contribution requirements for the years ended June 30, 2006 and 2005. Additional information regarding the plan's operation, significant actuarial assumptions, trend information, and funding status and progress can be found in the City of Port Huron's Comprehensive Annual Financial Report, of which the Authority is a component unit. The pension benefit obligation and net assets available for benefits for the Authority alone, separate from the plan as a whole, are not provided in the actuarial report.

Note 9 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City of Port Huron has purchased commercial insurance for property damage, contractors' equipment, data processing, health care, and employee dishonesty, for which the Authority reimburses the City its portion of the premiums.

The Authority participates in the Michigan Municipal Risk Management Authority program for general, auto, professional, public officials, and errors and omissions liabilities. The Authority is uninsured for Acts of God and environmental cleanup losses. Past experience indicates that the initial pass-through of premium charges by the City of Port Huron has been sufficient to cover the liabilities and settled claims under this program. Past experience also shows that, for the Authority, incurred but not reported claims have not been significant in amount. Further details of how the Michigan Municipal Risk Management Authority pool operates can be found in the City of Port Huron's Comprehensive Annual Financial Report, of which Henry McMorran Memorial Auditorium Authority is a component unit.

Note 10 - Postemployment Benefits

The Authority provides health care benefits to substantially all full-time employees upon retirement, in accordance with labor contracts. Currently, five retirees are eligible. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due. For the years ended June 30, 2006 and 2005, this amounted to approximately \$42,000 and \$37,000, respectively.

Henry McMorran Memorial Auditorium Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 10 - Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 11 - Seeing Stars Pledge

In August 1999, an individual pledged to give the Authority's Seeing Stars campaign a \$500,000 donation restricted for auditorium renovations. The pledge stipulates that the donor will match all donations received by the Authority in the amount of \$10,000 or greater until the \$500,000 amount has been met. For the years ended June 30, 2006 and 2005, the amount received under this pledge was \$414,885.



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September 8, 2006

To the Honorable Commissioners
Henry McMorran Memorial Auditorium Authority
701 McMorran Boulevard
Port Huron, Michigan 48060

Dear Commissioners:

We recently completed our audit of the basic financial statements of Henry McMorran Memorial Auditorium Authority (the "Authority"), a component unit of the City of Port Huron for the year ended June 30, 2006. As a result of our audit, we have the following comments and recommendations for your review and consideration.

Wire Transfer Policy - Public Act 738 of 2002 requires the adoption of an Automated Clearing House (ACH) resolution and policy by all local units of governments, including authorities and commissions. It is our understanding that the Authority has not yet adopted such a policy. Given the higher level of risk associated with electronic transfers of funds, it is important to establish policies and controls over their use to mitigate the likelihood of improper transfers and to be in compliance with state law.

Auditing Procedures Report - As independent auditors of governmental entities in the State of Michigan, we are required to submit to the State a supplemental attachment to financial statements on which we issue an opinion, referred to as the auditing procedures report. In this report, we must affirm whether the entity under audit is in compliance with certain regulations and confirm that we did not encounter various issues that are of concern to the State. One such issue is whether the entity made expenditures that are considered inappropriate for governmental entities as defined in guidance from the State, such as charitable contributions and expenses that constitute gifts to employees or others. To the extent that we encounter significant expenses that fall into these categories, we would be required to report that to the State. Oftentimes, the appropriateness of these expenses can be considered a legal matter as determination requires analysis of operating documents, policies, and labor agreements. We encourage the Authority's legal counsel to review all expenditures in these areas relative to the State's guidance regarding their appropriateness.

September 8, 2006

Another item that is required to be disclosed to the State in the auditing procedures report is whether the governing body of an organization approves all cash disbursements prior to payment or has adopted a policy specifically indicating what items can be paid without prior approval. It is our understanding that the commission of the Authority does not review a list of invoices prior to their payment but does not have a policy addressing this. We have indicated as such in the auditing procedures report. In order to enhance overall internal control over the disbursement process and to be in compliance with state statutes, we recommend the Authority adopt a policy that specifically addresses items or services that can be paid in advance of commission approval and outlines the process for commission approval subsequent to payment being made.

Cash Registers for Bar/Canteen Area - We noted that the staff working at the bar/canteen concession area use an unlocked cash drawer for sales transactions during various events taking place at the Authority instead of a true cash register. Use of a true cash register for collecting cash and making change for customers could increase security over cash collected and may reduce the risk of possible theft and safety issues.

We would like to thank all of the Authority's personnel for the courtesy and assistance extended to us during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC



Mark R. Hurst



Lisa C. Manetta